

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

HUMBOLDT COUNTY MEMORIAL HOSPITAL

Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	21
SUPPLEMENTARY INFORMATION:	
Schedules Supporting Balance Sheets:	
Patient receivables	22
Inventory/Prepaid expense	23
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	24
Revenue and related adjustments	25
Nursing service expenses	26
Other professional service expenses	28
Senior housing expenses	30
General service expenses	31
Fiscal and administrative service expenses	32
Comparative Statistics	33
Comparative Balance Sheets	34
Comparative Statements of Revenues, Expenses and Changes in Net Assets	35
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	36
Schedule of Findings	38

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2010

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Marlene Thompson, Chairperson	Humboldt, Iowa	2010
Tim Anderson, Vice-Chairperson	Humboldt, Iowa	2012
David Boswell, Secretary	Humboldt, Iowa	2010
Rod Harklau, Treasurer	Humboldt, Iowa	2012
Vivien Hansen	Humboldt, Iowa	2012
Gary Moritz (Resigned April, 2010)	Humboldt, Iowa	
Steve Long (Appointed April, 2010)	Humboldt, Iowa	2010
Jody Eppley	Humboldt, Iowa	2014

Chief Executive Officer:

Steven "Rob" Colerick	Humboldt, Iowa
-----------------------	----------------

Assistant Administrator:

Pam Ray	Humboldt, Iowa
---------	----------------

Chief Financial Officer:

Betty J. Etherington	Humboldt, Iowa
----------------------	----------------

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the accompanying balance sheets of Humboldt County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note A, the operations of a component unit are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such an entity be blended with these financial statements.

In our opinion, except for the effects of exclusion of a component unit required to be included as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2010 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Humboldt County Memorial Hospital

The management's discussion and analysis on pages 4 through 4e and the budgetary comparison schedule on page 21 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (none of which are presented herein) and expressed qualified opinions on those financial statements. The supplementary information (shown on pages 22 through 35) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Donewold, Bill, Hyphen & Co. P.C.

Atlantic, Iowa
September 22, 2010



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

(515)332-4200

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Humboldt County Memorial Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years. Net assets increased by \$745,407 or 4.7 percent from 2009 to 2010 and by \$1,070,256 or 7.3 percent from 2008 to 2009.

The Hospital reported an operating profit in both 2010 and 2009; operating profits were \$128,983 and \$370,624 respectively. The 2010 results reflect a \$241,641 or 65.2 percent decrease as compared to 2009 results. Operating profit increased in 2009 as compared to 2008 by \$44,910. This reflects a 13.8 percent increase.

Net non-operating revenues decreased by \$15,651 or 2.5 percent in 2010 compared to 2009. Net non-operating revenues decreased in 2009 by \$163,099 or 20.5 percent as compared to 2008.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 5 of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities as reported in the Balance Sheet on page 5 of the financial statements. The Hospitals' net assets increased in each of the past two years by \$745,407 (4.7 percent) in 2010 and \$1,070,256 (7.3 percent) in 2009, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 3,741,125	\$ 3,334,580	\$ 3,692,193
Capital assets, net	12,421,893	12,855,858	12,356,932
Other non-current assets	<u>5,668,014</u>	<u>4,683,351</u>	<u>4,069,997</u>
Total assets	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>
Liabilities:			
Long-term debt outstanding, net	\$ 2,692,387	\$ 2,950,714	\$ 3,199,545
Other current and noncurrent liabilities	<u>2,623,612</u>	<u>2,153,449</u>	<u>2,220,207</u>
Total liabilities	<u>\$ 5,315,999</u>	<u>\$ 5,104,163</u>	<u>\$ 5,419,752</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,643,170	\$ 9,798,090	\$ 8,800,143
Restricted for debt service	200,265	213,609	234,939
Unrestricted	<u>6,671,598</u>	<u>5,757,927</u>	<u>5,664,288</u>
Total net assets	<u>\$ 16,515,033</u>	<u>\$ 15,769,626</u>	<u>\$ 14,699,370</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Hospital's total assets increased from \$20,873,789 in 2009 to \$21,831,032 in 2010 (up 4.6%). Capital assets decreased from \$12,855,858 in 2009 to \$12,421,893 (down 3.4%). Designated assets increased from \$4,889,194 in 2009 to \$5,850,783 in 2010 (up 20%) as the Hospital was able to rebuild reserve funds previously used for construction. Operating income decreased in 2010 by \$241,641 (down 65.2%) from 2009.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2010, the Hospital's net assets increased by \$745,407 or 4.7 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2010 were \$16,515,033 and \$15,769,626 at year-end 2009.

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Net patient service revenues	\$ 10,963,885	\$ 11,367,312	\$ 10,214,332
Other operating revenues	<u>1,301,698</u>	<u>1,300,328</u>	<u>1,303,902</u>
Total operating revenues	12,265,583	12,667,640	11,518,234
Operating Expenses:			
Salaries and benefits	6,601,950	6,686,685	6,264,996
Professional fees	1,241,240	1,198,319	739,853
Other operating expenses	3,199,629	3,444,245	3,279,493
Depreciation and amortization	<u>1,093,781</u>	<u>967,767</u>	<u>908,178</u>
Total operating expenses	12,136,600	12,297,016	11,192,520
Operating Income	128,983	370,624	325,714
Non-Operating Revenues and Expenses:			
Property taxes	374,996	374,769	375,032
Investment income	110,696	151,169	325,273
Non-capital grants and contributions	190,736	105,848	142,223
Other non-operating revenues and expenses, net	<u>(60,004)</u>	<u>289</u>	<u>(47,354)</u>
Total non-operating revenues (expenses), net	616,424	632,075	795,174
Excess of Revenues Over Expenses Before Capital Grants and Contributions	745,407	1,002,699	1,120,888
Capital Grants and Contributions	<u>--</u>	<u>67,557</u>	<u>133,291</u>
Increase in net assets	745,407	1,070,256	1,254,179
Net Assets Beginning of Year	<u>15,769,626</u>	<u>14,699,370</u>	<u>13,445,191</u>
Net Assets End of Year	<u>\$ 16,515,033</u>	<u>\$ 15,769,626</u>	<u>\$ 14,699,370</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating profit. This is consistent with the Hospital's past several years of operating history. Operating profit was \$128,983 in 2010 and \$370,624 in 2009.

Operations have shown a slight decline from 2009 to 2010. Changes in the local medical staff resulted in fewer admissions and outpatient occasions of service. Home health and hospice services were also being phased out towards the end of the fiscal year.

Revenue decreases were noted in Inpatient services (down \$147,255 / 7.6%), Surgery (down \$327,814 / 17.6%), Pharmacy (down \$198,015 / 9.7%) and Home Health (down \$96,811 / 10.7%).

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. With the decline in revenue, the Hospital was able to reduce labor and supply costs to maintain a positive bottom line.

Decrease in labor costs \$84,735 (down 1.3%)

Decrease in general supplies \$244,616 (down 7.1%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care and patient diagnostics. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2009, \$351,478 in accounts were written off as uncollectible. This figure increased to \$390,434 in 2010. This reflects a 11.1 percent increase over this two year period showing a decline in patients' ability to pay for services. This figure does not include the \$41,864 in approved Charity Care applications which has also increased as patients are unable to pay for services.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions increased by \$84,888 or 80.2% when compared to 2009. Investment income decreased by \$40,473 or 26.8% as interest rates remain low. Hospital interest expense, net of interest capitalized, increased \$61,109 from 2009. Overall, net non-operating revenues decreased from \$632,075 to \$616,424 from 2009 to 2010.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital actively seeks contributions through its Foundation and continues to explore applicable grant opportunities. No funds were received in 2010 compared to \$67,557 received in 2009.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital cash position is an increase of \$641,489 in 2010 from 2009.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the adopted amended budget by \$1,311,683. Interest expense, wages, depreciation and supplies were areas with lower than expected expenses. Actual revenues were lower than budgeted by \$629,899 due to the shortage in number of primary care providers and phasing out of home care services.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2010, the Hospital had approximately \$12.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2010, the Hospital purchased new property and moveable equipment costing \$637,426. Of this, none was acquired through capital leases.

Debt:

At year-end 2010, the Hospital had a \$2,842,714 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$108,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. This non-interest bearing loan was used for the assisted living project.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital.

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles, more coverage limitations and discounts by insurance companies and an increasing number of uninsured individuals. This in turn leads to more uncollectible balances.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. The age of the original Hospital has necessitated ongoing investments in the infrastructure of the building and mechanical systems.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Financial Director's Office, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 1,547,971	\$ 831,204
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$378,000 in 2010, \$432,000 in 2009)	1,114,832	1,426,892
Other receivables	50,680	24,988
Inventory	225,017	216,126
Prepaid expense	81,130	71,200
Succeeding year property tax receivable	291,000	289,000
Internally designated assets	<u>430,495</u>	<u>475,170</u>
Total current assets	3,741,125	3,334,580
Designated Assets:		
Internally designated assets	5,650,518	4,675,585
Restricted assets	<u>200,265</u>	<u>213,609</u>
	5,850,783	4,889,194
Less amounts required to meet current liabilities	<u>430,495</u>	<u>475,170</u>
	5,420,288	4,414,024
Capital Assets:		
Depreciable capital assets, net	12,285,121	8,579,689
Non-depreciable capital assets	<u>136,772</u>	<u>4,276,169</u>
	12,421,893	12,855,858
Deferred Financing Costs	224,355	246,745
Notes Receivable	<u>23,371</u>	<u>22,582</u>
Total assets	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 258,327	\$ 248,831
Accounts payable	514,458	489,081
Accrued employee compensation	487,695	495,676
Payroll taxes withheld and accrued	74,022	35,797
Accrued interest payable	19,804	21,371
Senior housing deposits	86,306	80,693
Estimated third-party payor settlements	892,000	493,000
Deferred revenue for succeeding year property tax receivable	<u>291,000</u>	<u>289,000</u>
Total current liabilities	2,623,612	2,153,449
Long-Term Debt:		
Note payable, less current maturities	84,000	108,000
Revenue note, less current maturities	<u>2,608,387</u>	<u>2,842,714</u>
Total long-term debt	<u>2,692,387</u>	<u>2,950,714</u>
Total liabilities	5,315,999	5,104,163
Net Assets:		
Invested in capital assets, net of related debt	9,643,170	9,798,090
Restricted - expendable	200,265	213,609
Unrestricted	<u>6,671,598</u>	<u>5,757,927</u>
Total net assets	<u>16,515,033</u>	<u>15,769,626</u>
 Total liabilities and net assets	 <u>\$ 21,831,032</u>	 <u>\$ 20,873,789</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Revenue:		
Net patient service revenue	\$ 10,963,885	\$ 11,367,312
Other revenue	<u>1,301,698</u>	<u>1,300,328</u>
Total revenue	12,265,583	12,667,640
Expenses:		
Nursing service	2,230,521	2,376,793
Other professional service	4,383,009	4,688,348
Senior housing	427,979	442,700
General service	1,394,260	1,268,465
Fiscal and administrative service	2,607,050	2,552,943
Provision for depreciation	1,071,391	945,935
Amortization	<u>22,390</u>	<u>21,832</u>
Total expenses	<u>12,136,600</u>	<u>12,297,016</u>
Operating Income	128,983	370,624
Non-Operating Revenues (Expenses):		
County taxes	299,996	299,769
Home health county revenue	75,000	75,000
Noncapital grants and contributions	190,736	105,848
Investment income	110,696	151,169
Gain on disposal of equipment	1,105	289
Interest expense	<u>(61,109)</u>	<u>--</u>
Non-operating revenues, net	<u>616,424</u>	<u>632,075</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	745,407	1,002,699
Capital Grants and Contributions	<u>--</u>	<u>67,557</u>
Increase in Net Assets	745,407	1,070,256
Net Assets Beginning of Year	<u>15,769,626</u>	<u>14,699,370</u>
Net Assets End of Year	<u>\$ 16,515,033</u>	<u>\$ 15,769,626</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 11,654,866	\$ 11,408,264
Cash paid to suppliers	(5,962,189)	(6,311,824)
Cash paid to employees	(4,994,838)	(5,110,773)
Other revenue	<u>1,301,698</u>	<u>1,300,328</u>
Net cash provided by operating activities	1,999,537	1,285,995
Cash flows from non-capital financing activities:		
County tax revenue	374,996	374,769
Noncapital grants and contributions	<u>190,736</u>	<u>105,848</u>
Net cash provided by non-capital financing activities	565,732	480,617
Cash flows from capital and related financing activities:		
Capital grants and contributions	--	67,557
Principal paid on long-term debt	(248,831)	(246,455)
Capital expenditures	(407,070)	(487,803)
Construction in progress expenditures	(204,040)	(1,056,593)
Proceeds from disposal of equipment	1,105	289
Interest paid	<u>(126,299)</u>	<u>(128,174)</u>
Net cash used in capital and related financing activities	(985,135)	(1,851,179)
Cash flows from investing activities:		
Investment income	110,696	151,169
Change in designated assets	(1,036,867)	(414,831)
Notes receivable advances	<u>(12,474)</u>	<u>(22,582)</u>
Net cash used in investing activities	(938,645)	(286,244)
Net increase (decrease) in cash and cash equivalents	641,489	(370,811)
Cash and cash equivalents beginning of year	<u>1,360,052</u>	<u>1,730,863</u>
Cash and cash equivalents end of year	<u>\$ 2,001,541</u>	<u>\$ 1,360,052</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,547,971	\$ 831,204
Cash and cash equivalents in designated and restricted assets	<u>453,570</u>	<u>528,848</u>
	<u>\$ 2,001,541</u>	<u>\$ 1,360,052</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 128,983	\$ 370,624
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,071,391	945,935
Amortization	34,075	21,832
Salaries and wages capitalized	(15,297)	(40,980)
Change in assets and liabilities		
Accounts receivable	286,368	(160,169)
Inventory	(8,891)	(48,502)
Prepaid expense	(9,930)	(2,400)
Accounts payable, trade	77,981	(243)
Accrued employee compensation	(7,981)	30,744
Payroll taxes withheld and accrued	38,225	(31,967)
Senior housing deposits	5,613	4,121
Estimated third-party payor settlements	<u>399,000</u>	<u>197,000</u>
Total adjustments	<u>1,870,554</u>	<u>915,371</u>
Net cash provided by operating activities	<u>\$ 1,999,537</u>	<u>\$ 1,285,995</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Humboldt County Memorial Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one identified component unit: Humboldt County Memorial Hospital Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. The Hospital received no capital contributions from the Foundation during the year ended June 30, 2010 (\$68,000 in 2009). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$2,205,000 (\$2,029,000 in 2009) and an increase in the change in net assets of \$176,000 (\$163,000 increase in 2009) for the year ended June 30, 2010.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized \$63,623 of interest cost in 2010 and \$133,983 in 2009.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off accumulates to a maximum of 360 hours for management level employees and 240 hours for all other staff. Any excess over those limits accumulated by the employee's anniversary date is lost. The computed amount of paid time off earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

16. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2009. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2007. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Long-term debt	\$ 200,265	\$ 200,318
Purchase of property and equipment	<u>--</u>	<u>13,291</u>
	<u>\$ 200,265</u>	<u>\$ 213,609</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2010 or 2009.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2010</u>	<u>2009</u>
Payment of long-term debt	\$ 53	\$ 176
Purchase of property and equipment	<u>13,291</u>	<u>88,711</u>
	<u>\$ 13,344</u>	<u>\$ 88,887</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$6,671,598 (\$5,757,927 as of June 30, 2009) of unrestricted net assets as of June 30, 2010, \$5,650,518 (\$4,675,585 for 2009) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2010</u>	<u>2009</u>
Capital acquisitions	\$ 5,196,948	\$ 4,160,028
Employee health insurance	<u>453,570</u>	<u>515,557</u>
	<u>\$ 5,650,518</u>	<u>\$ 4,675,585</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2010</u>	<u>2009</u>
Internally Designated Assets:		
Cash	\$ 453,570	\$ 515,557
Certificates of deposit	5,185,430	4,150,481
Interest receivable	<u>11,518</u>	<u>9,547</u>
	<u>\$ 5,650,518</u>	<u>\$ 4,675,585</u>
Restricted Assets:		
Cash	\$ --	\$ 13,291
Certificates of deposit	200,000	200,000
Interest receivable	<u>265</u>	<u>318</u>
	<u>\$ 200,265</u>	<u>\$ 213,609</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Receivable from:		
Patients	\$ 249,776	\$ 244,946
Medicare	541,382	704,698
Medicaid	84,773	170,878
Wellmark	329,627	357,377
Other commercial insurance carriers	270,822	371,341
Others	<u>16,452</u>	<u>9,652</u>
	1,492,832	1,858,892
Less allowances for doubtful accounts and contractual adjustments	<u>378,000</u>	<u>432,000</u>
	<u>\$ 1,114,832</u>	<u>\$ 1,426,892</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2010 and 2009 were as follows:

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed				
Equipment	7,743,616	4,378,904	--	12,122,520
Major Movable Equipment	5,912,789	397,919	34,340	6,276,368
Senior Housing Assets	5,136,584	--	--	5,136,584
	<u>18,942,777</u>	<u>4,776,823</u>	<u>34,340</u>	<u>23,685,260</u>
<u>Depreciation</u>				
Land Improvements	95,264	5,064	--	100,328
Buildings and Fixed				
Equipment	4,049,042	394,850	--	4,443,892
Major Movable Equipment	4,662,558	419,596	34,340	5,047,814
Senior Housing Assets	<u>1,556,224</u>	<u>251,881</u>	<u>--</u>	<u>1,808,105</u>
Total Depreciation	<u>10,363,088</u>	<u>1,071,391</u>	<u>34,340</u>	<u>11,400,139</u>
Total Depreciable Capital Assets, Net	<u>\$ 8,579,689</u>	<u>\$3,705,432</u>	<u>\$ --</u>	<u>\$ 12,285,121</u>
Construction in Progress	\$ 4,227,675	\$ 194,273	\$4,333,670	\$ 88,278
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 4,276,169</u>	<u>\$ 194,273</u>	<u>\$4,333,670</u>	<u>\$ 136,772</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed				
Equipment	6,122,379	1,621,237	--	7,743,616
Major Movable Equipment	5,449,755	463,034	--	5,912,789
Senior Housing Assets	<u>5,136,584</u>	<u>--</u>	<u>--</u>	<u>5,136,584</u>
	16,858,506	2,084,271	--	18,942,777
<u>Depreciation</u>				
Land Improvements	90,200	5,064	--	95,264
Buildings and Fixed				
Equipment	3,765,588	283,454	--	4,049,042
Major Movable Equipment	4,257,778	404,780	--	4,662,558
Senior Housing Assets	<u>1,303,587</u>	<u>252,637</u>	<u>--</u>	<u>1,556,224</u>
Total Depreciation	<u>9,417,153</u>	<u>945,935</u>	<u>--</u>	<u>10,363,088</u>
Total Depreciable Capital Assets, Net	<u>\$ 7,441,353</u>	<u>\$1,138,336</u>	<u>\$ --</u>	<u>\$ 8,579,689</u>
Construction in Progress	\$ 4,867,085	\$1,019,637	\$1,659,047	\$ 4,227,675
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 4,915,579</u>	<u>\$1,019,637</u>	<u>\$1,659,047</u>	<u>\$ 4,276,169</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2010 and 2009 follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 132,000	\$ --	\$ 24,000	\$ 108,000	\$ 24,000
Series 2008 Revenue					
Note	<u>3,067,545</u>	<u>--</u>	<u>224,831</u>	<u>2,842,714</u>	<u>234,327</u>
Total Non-Current					
Liabilities	<u>\$3,199,545</u>	<u>\$ --</u>	<u>\$ 248,831</u>	<u>\$2,950,714</u>	<u>\$ 258,327</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2008</u>			<u>2009</u>	<u>Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 156,000	\$ --	\$ 24,000	\$ 132,000	\$ 24,000
Series 2008 Revenue					
Note	<u>3,290,000</u>	<u>--</u>	<u>222,455</u>	<u>3,067,545</u>	<u>224,831</u>
Total Non-Current					
Liabilities	<u>\$3,446,000</u>	<u>\$ --</u>	<u>\$ 246,455</u>	<u>\$3,199,545</u>	<u>\$ 248,831</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan is non-interest bearing and is payable in forty equal quarterly installments commencing April 1, 2005. The loan is collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE H - NON-CURRENT LIABILITIES - Continued

The combined annual debt service on the loan and note is expected to require less than 20% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$375,000 and \$1,900,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2011	\$ 258,327	\$ 116,402	\$ 374,729
2012	268,224	106,505	374,729
2013	278,540	96,189	374,729
2014	289,291	85,438	374,729
2015	288,496	74,233	362,729
2016-2020	<u>1,567,836</u>	<u>185,812</u>	<u>1,753,648</u>
	<u>\$ 2,950,714</u>	<u>\$ 664,579</u>	<u>\$ 3,615,293</u>

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% (4.50% beginning July 1, 2010) of their annual salary and the Hospital is required to contribute 6.65% (6.95% beginning July 1, 2010) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were approximately \$330,000, \$322,000, and \$295,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2010 was approximately \$98,000 (\$84,000 at June 30, 2009). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management and laundry services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Fees to Trinity for personnel and services	\$ <u>193,539</u>	\$ <u>223,526</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

As of June 30, 2010, the Hospital incurred costs of \$88,278 for various equipment down payments and the renovation of the lobby. No material commitments exist at June 30, 2010 for either the lobby renovation or the equipment purchases.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2010, the Hospital has designated funds in excess of actual claims paid of \$453,570 (\$515,557 at June 30, 2009). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2010 and June 30, 2009 is \$100,000 and is included in accounts payable.

Notes Receivable

The notes receivable represent funds advanced under an agreement with a healthcare professional now practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Hospital has evaluated all subsequent events through September 22, 2010, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 299,996	\$ --	\$ 299,996
Other revenues	12,582,011	--	12,582,011
Transfers in (out)	<u>13,344</u>	<u>(13,344)</u>	<u>--</u>
	12,895,351	(13,344)	12,882,007
Expenses	<u>12,136,600</u>	<u>--</u>	<u>12,136,600</u>
Net	758,751	(13,344)	745,407
Balance beginning of year	<u>15,556,017</u>	<u>213,609</u>	<u>15,769,626</u>
Balance end of year	<u>\$ 16,314,768</u>	<u>\$ 200,265</u>	<u>\$ 16,515,033</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 299,996	\$ --	\$ 299,996	\$ 295,481
Other revenues	<u>12,582,011</u>	<u>61,109</u>	<u>12,643,120</u>	<u>13,277,534</u>
	12,882,007	61,109	12,943,116	13,573,015
Expenses	<u>12,136,600</u>	<u>124,732</u>	<u>12,261,332</u>	<u>13,573,015</u>
Net	745,407	(63,623)	681,784	--
Balance beginning of year	<u>15,769,626</u>	<u>(605,195)</u>	<u>15,164,431</u>	<u>15,164,431</u>
Balance end of year	<u>\$ 16,515,033</u>	<u>\$(668,818)</u>	<u>\$ 15,846,215</u>	<u>\$ 15,164,431</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 931,316	62.4%	\$ 1,139,699	61.3%
31 - 90	379,434	25.4	451,843	24.3
91 - 120	90,452	6.1	123,588	6.7
121 and over	91,630	6.1	143,762	7.7
	<u>1,492,832</u>	<u>100.0%</u>	<u>1,858,892</u>	<u>100.0%</u>
Allowance for doubtful accounts	200,000		210,000	
Allowance for contractual adjustments	<u>178,000</u>		<u>222,000</u>	
	<u>\$ 1,114,832</u>		<u>\$ 1,426,892</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning	\$ 210,000	\$ 200,000
Provision for bad debts	390,434	351,478
Recoveries of accounts previously written off	<u>235,273</u>	<u>234,950</u>
	835,707	786,428
Accounts written off	<u>635,707</u>	<u>576,428</u>
Balance, ending	<u>\$ 200,000</u>	<u>\$ 210,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2010</u>	<u>2009</u>
<u>Inventory</u>		
Central supply	\$ 124,228	\$ 111,556
Pharmacy	80,249	76,447
Dietary	<u>20,540</u>	<u>28,123</u>
	<u>\$ 225,017</u>	<u>\$ 216,126</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 69,710	\$ 71,200
Contracts	<u>11,420</u>	<u>--</u>
	<u>\$ 81,130</u>	<u>\$ 71,200</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2010		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 401,005	\$ --	\$ --
Swing bed - SNF	--	--	161,370
NF care	--	--	--
Telemetry	59,000	--	--
	<u>460,005</u>	<u>--</u>	<u>161,370</u>
Other Nursing Services:			
Observation	--	111,618	--
Operating and recovery rooms	42,309	1,494,287	--
Central services and supply	13,617	205,578	14,366
Emergency services	7,210	788,018	--
Cardiac rehabilitation	--	62,933	--
	<u>63,136</u>	<u>2,662,434</u>	<u>14,366</u>
Other Professional Services:			
Emergency room physicians	56,601	427,581	2,745
Laboratory and blood bank	173,234	1,912,479	15,482
Electrocardiology	14,555	162,440	340
Cardiovascular diagnostics	21,436	204,360	--
Radiology	121,199	1,856,407	1,934
Pharmacy	495,165	977,353	190,921
Anesthesiology	9,640	256,000	--
Respiratory therapy	161,314	267,395	48,291
Physical therapy	8,738	394,834	24,665
Occupational therapy	4,968	44,107	30,830
Speech therapy	1,660	9,358	1,310
Massage therapy	12,333	--	--
Ambulance	--	494,688	--
Home health	--	809,369	--
Hospice	--	135,348	--
	<u>1,080,843</u>	<u>7,951,719</u>	<u>316,518</u>
	<u>\$ 1,603,984</u>	<u>\$ 10,614,153</u>	<u>\$ 492,254</u>

See Independent Auditor's Report.

2010		2009
LTC	Total	Total
\$ --	\$ 401,005	\$ 526,900
--	161,370	193,710
1,158,009	1,158,009	1,145,229
--	59,000	60,800
<u>1,158,009</u>	<u>1,779,384</u>	<u>1,926,639</u>
--	111,618	118,216
--	1,536,596	1,864,410
16,845	250,406	95,600
--	795,228	840,107
--	62,933	41,743
<u>16,845</u>	<u>2,756,781</u>	<u>2,960,076</u>
--	486,927	476,604
--	2,101,195	2,164,517
--	177,335	190,416
--	225,796	198,616
--	1,979,540	2,035,213
174,748	1,838,187	2,036,202
--	265,640	271,252
--	477,000	529,934
--	428,237	442,005
--	79,905	76,546
--	12,328	11,330
--	12,333	14,450
--	494,688	508,807
--	809,369	906,180
--	135,348	176,689
<u>174,748</u>	<u>9,523,828</u>	<u>10,038,761</u>
<u>\$ 1,349,602</u>	<u>\$ 14,059,993</u>	<u>\$ 14,925,476</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
June 30,

	<u>2010</u>	<u>2009</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 14,059,993	\$ 14,925,476
Contractual adjustments	(2,659,325)	(3,164,408)
Discounts and allowances	(4,485)	(3,716)
Provision for bad debts	(390,434)	(351,478)
Charity care	(41,864)	(38,562)
	<u>\$ 10,963,885</u>	<u>\$ 11,367,312</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 599,205	\$ 587,242
Senior housing revenue - assisted living	468,947	429,153
Cafeteria	47,675	47,967
Congregate meals	73,176	81,399
Employee prescriptions	83,646	125,614
Purchase discounts	289	373
Medical records transcript fees	2,970	2,538
Rental income	25,783	26,042
Vending machine commissions	<u>7</u>	<u>--</u>
	<u>\$ 1,301,698</u>	<u>\$ 1,300,328</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Administrative:		
Salaries and wages	\$ 115,281	\$ 113,321
Supplies and other expense	<u>5,590</u>	<u>805</u>
	120,871	114,126
Medical and Surgical:		
Salaries and wages	586,321	623,130
Supplies and other expense	<u>40,910</u>	<u>55,191</u>
	627,231	678,321
Long-Term Care:		
Salaries and wages	637,095	618,236
Supplies and other expense	<u>44,999</u>	<u>39,103</u>
	682,094	657,339
Operating and Recovery Rooms:		
Salaries and wages	176,494	184,843
Supplies and other expense	<u>160,120</u>	<u>397,413</u>
	336,614	582,256
Central Services and Supply:		
Salaries and wages	78,117	76,169
Supplies and other expense	<u>149,621</u>	<u>31,535</u>
	227,738	107,704
Emergency Services:		
Salaries and wages	203,036	199,380
Supplies and other expense	<u>25,003</u>	<u>23,611</u>
	228,039	222,991

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cardiac Rehabilitation:		
Salaries and wages	\$ 6,874	\$ 8,808
Supplies and other expense	<u>1,060</u>	<u>5,248</u>
	<u>7,934</u>	<u>14,056</u>
	<u>\$ 2,230,521</u>	<u>\$ 2,376,793</u>

SUMMARY

Salaries and wages	\$ 1,803,218	\$ 1,823,887
Supplies and other expense	<u>427,303</u>	<u>552,906</u>
	<u>\$ 2,230,521</u>	<u>\$ 2,376,793</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Emergency Room Physicians:		
Professional fees	\$ 754,333	\$ 716,410
Laboratory and Blood Bank:		
Salaries and wages	340,902	361,848
Professional fees	30,801	61,349
Supplies and other expense	<u>233,324</u>	<u>264,303</u>
	605,027	687,500
Electrocardiology:		
Professional fees	8,113	13,314
Supplies and other expense	<u>286</u>	<u>--</u>
	8,399	13,314
Cardiovascular Diagnostics:		
Salaries and wages	2,405	1,618
Supplies and other expense	<u>23,140</u>	<u>20,820</u>
	25,545	22,438
Radiology:		
Salaries and wages	274,897	273,461
Supplies and other expense	<u>361,790</u>	<u>408,088</u>
	636,687	681,549
Pharmacy:		
Salaries and wages	146,820	212,593
Supplies and other expense	<u>460,740</u>	<u>544,162</u>
	607,560	756,755
Anesthesiology:		
Professional fees	110,440	113,758
Supplies and other expense	<u>13,131</u>	<u>7,572</u>
	123,571	121,330
Respiratory Therapy:		
Salaries and wages	26,610	19,174
Supplies and other expense	<u>76,449</u>	<u>73,280</u>
	103,059	92,454
Physical Therapy:		
Salaries and wages	159,650	157,212
Professional fees	2,751	2,688
Supplies and other expense	<u>12,485</u>	<u>11,970</u>
	174,886	171,870

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Occupational Therapy:		
Professional fees	\$ 69,699	\$ 61,679
Speech Therapy:		
Professional fees	12,867	10,090
Massage Therapy:		
Supplies and other expense	10,448	11,861
Ambulance:		
Salaries and wages	86,411	81,285
Supplies and other expense	<u>39,853</u>	<u>40,133</u>
	126,264	121,418
Outpatient Clinics:		
Salaries and wages	23,627	18,751
Supplies and other expense	<u>9,630</u>	<u>1,751</u>
	33,257	20,502
Home Health:		
Salaries and wages	641,225	705,687
Supplies and other expense	<u>149,644</u>	<u>179,056</u>
	790,869	884,743
Hospice:		
Salaries and wages	26,882	46,840
Supplies and other expense	<u>36,322</u>	<u>27,018</u>
	63,204	73,858
Medical Records:		
Salaries and wages	201,626	206,555
Supplies and other expense	<u>35,708</u>	<u>34,022</u>
	237,334	240,577
	<u>\$ 4,383,009</u>	<u>\$ 4,688,348</u>

SUMMARY

Salaries and wages	\$ 1,931,055	\$ 2,085,024
Professional fees	989,004	979,288
Supplies and other expense	<u>1,462,950</u>	<u>1,624,036</u>
	<u>\$ 4,383,009</u>	<u>\$ 4,688,348</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Senior Housing Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Springvale - Independent Living:		
Salaries and wages	\$ 103,704	\$ 102,225
Utilities	35,386	36,088
Repairs and maintenance	278	1,729
Supplies and other expense	<u>78,701</u>	<u>84,705</u>
	218,069	224,747
Springvale - Assisted Living:		
Salaries and wages	182,008	183,313
Utilities	22,594	26,596
Repairs and maintenance	--	1,629
Supplies and other expense	<u>5,308</u>	<u>6,415</u>
	<u>209,910</u>	<u>217,953</u>
	<u>\$ 427,979</u>	<u>\$ 442,700</u>

SUMMARY

Salaries and wages	\$ 285,712	\$ 285,538
Supplies and other expense	<u>142,267</u>	<u>157,162</u>
	<u>\$ 427,979</u>	<u>\$ 442,700</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Dietary:		
Salaries and wages	\$ 323,265	\$ 317,476
Food, supplies and other expense	<u>302,435</u>	<u>333,137</u>
	625,700	650,613
Plant Operation and Maintenance:		
Salaries and wages	192,376	173,933
Utilities	155,599	140,080
Supplies and other expense	<u>160,577</u>	<u>58,405</u>
	508,552	372,418
Housekeeping:		
Salaries and wages	134,699	128,128
Supplies and other expense	<u>47,800</u>	<u>52,770</u>
	182,499	180,898
Laundry and Linen:		
Salaries and wages	852	471
Supplies and other expense	<u>76,657</u>	<u>64,065</u>
	<u>77,509</u>	<u>64,536</u>
	<u>\$ 1,394,260</u>	<u>\$ 1,268,465</u>

SUMMARY

Salaries and wages	\$ 651,192	\$ 620,008
Supplies and other expense	<u>743,068</u>	<u>648,457</u>
	<u>\$ 1,394,260</u>	<u>\$ 1,268,465</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Fiscal and Administrative Service:		
Salaries and wages	\$ 294,248	\$ 286,080
Professional fees	252,236	219,031
Supplies and other expense	<u>188,445</u>	<u>261,179</u>
	734,929	766,290
Information Systems:		
Supplies and other expense	171,231	134,306
Employee Welfare:		
Social Security tax	358,990	369,336
Iowa Public Employees' Retirement System	330,135	322,460
Group health insurance	826,549	788,772
Workers' compensation insurance	65,513	62,392
Unemployment expense	5,038	4,308
Other employee benefits	<u>44,165</u>	<u>38,880</u>
	1,630,390	1,586,148
Community Development:		
Salaries and wages	6,135	--
Supplies and other expense	<u>1,419</u>	<u>--</u>
	7,554	--
Insurance:		
Liability and property	<u>62,946</u>	<u>66,199</u>
	<u>\$ 2,607,050</u>	<u>\$ 2,552,943</u>

SUMMARY

Salaries and wages	\$ 300,383	\$ 286,080
Employee benefits	1,630,390	1,586,148
Professional fees	252,236	219,031
Supplies and other expense	<u>424,041</u>	<u>461,684</u>
	<u>\$ 2,607,050</u>	<u>\$ 2,552,943</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 4,971,560	\$ 5,100,537
Employee benefits	1,630,390	1,586,148
Professional fees	1,241,240	1,198,319
Supplies and other expense	<u>3,199,629</u>	<u>3,444,245</u>
	<u>\$ 11,042,819</u>	<u>\$ 11,329,249</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute Care:					
Admissions	271	310	285	289	306
Discharges	273	308	283	291	304
Patient Days	715	923	828	898	935
Average Length of Stay	2.62	3.00	2.93	3.09	3.08
Average Occupied Beds	2.0	2.5	2.3	2.5	2.6
Swing Bed:					
Admissions	55	70	80	97	104
Discharges	55	73	79	98	103
SNF Days	489	587	567	713	597
ICF Days	39	42	40	25	69
Long-Term Care Patient Days	9,392	9,243	9,890	9,914	9,883
Combined Average Occupied Beds	29.1	29.6	30.9	31.6	31.5
Outpatient Occasions of Service	46,883	48,679	52,844	51,475	46,479
Home Health Visits	9,959	10,163	10,585	10,130	10,407

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 1,547,971	\$ 831,204
Patient receivables, net	1,114,832	1,426,892
Other receivables	50,680	24,988
Inventory	225,017	216,126
Prepaid expense	81,130	71,200
Succeeding year property tax receivable	291,000	289,000
Internally designated assets	<u>430,495</u>	<u>475,170</u>
Total current assets	3,741,125	3,334,580
Other Assets:		
Designated and restricted assets	5,420,288	4,414,024
Capital assets, net	12,421,893	12,855,858
Deferred financing costs	224,355	246,745
Notes receivable	<u>23,371</u>	<u>22,582</u>
Total other assets	<u>18,089,907</u>	<u>17,539,209</u>
Total assets	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 258,327	\$ 248,831
Accounts payable	514,458	489,081
Accrued expenses	561,717	531,473
Accrued interest payable	19,804	21,371
Senior housing deposits	86,306	80,693
Estimated third-party payor settlements	892,000	493,000
Deferred revenue for succeeding year property tax receivable	<u>291,000</u>	<u>289,000</u>
Total current liabilities	<u>2,623,612</u>	<u>2,153,449</u>
Long-Term Debt, Net	<u>2,692,387</u>	<u>2,950,714</u>
Total liabilities	5,315,999	5,104,163
Net Assets	<u>16,515,033</u>	<u>15,769,626</u>
Total liabilities and net assets	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,133,475	\$ 933,675	\$ 1,014,343
1,219,502	1,059,930	1,120,070
72,209	38,909	58,613
167,624	213,109	249,932
68,800	43,600	40,500
289,000	289,000	289,000
<u>741,583</u>	<u>335,071</u>	<u>329,804</u>
3,692,193	2,913,294	3,102,262
3,801,320	7,497,326	5,388,342
12,356,932	8,456,309	8,558,771
268,677	160,191	170,600
--	--	--
<u>16,426,929</u>	<u>16,113,826</u>	<u>14,117,713</u>
<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>	<u>\$ 17,219,975</u>
\$ 246,455	\$ 189,000	\$ 184,000
763,822	363,809	350,914
532,696	496,604	448,366
15,662	16,620	17,320
76,572	77,896	68,290
296,000	868,000	547,000
<u>289,000</u>	<u>289,000</u>	<u>289,000</u>
2,220,207	2,300,929	1,904,890
<u>3,199,545</u>	<u>3,281,000</u>	<u>3,470,000</u>
5,419,752	5,581,929	5,374,890
<u>14,699,370</u>	<u>13,445,191</u>	<u>11,845,085</u>
<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>	<u>\$ 17,219,975</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Patient Service Revenue	\$ 14,059,993	\$ 14,925,476
Adjustments to Patient Service Revenue	<u>(3,096,108)</u>	<u>(3,558,164)</u>
Net Patient Service Revenue	10,963,885	11,367,312
Other Revenue	<u>1,301,698</u>	<u>1,300,328</u>
Total Revenue	12,265,583	12,667,640
Expenses	<u>12,136,600</u>	<u>12,297,016</u>
Operating Income	128,983	370,624
Non-Operating Revenues, Net	<u>616,424</u>	<u>632,075</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	745,407	1,002,699
Capital Grants and Contributions	<u>--</u>	<u>67,557</u>
Increase in Net Assets	<u>\$ 745,407</u>	<u>\$ 1,070,256</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 13,702,674	\$ 13,940,031	\$ 12,540,420
<u>(3,488,342)</u>	<u>(3,428,690)</u>	<u>(2,626,183)</u>
10,214,332	10,511,341	9,914,237
<u>1,303,902</u>	<u>1,314,788</u>	<u>1,262,834</u>
11,518,234	11,826,129	11,177,071
<u>11,192,520</u>	<u>11,023,314</u>	<u>10,550,459</u>
325,714	802,815	626,612
<u>795,174</u>	<u>782,291</u>	<u>543,176</u>
1,120,888	1,585,106	1,169,788
<u>133,291</u>	<u>15,000</u>	<u>3,505</u>
<u>\$ 1,254,179</u>	<u>\$ 1,600,106</u>	<u>\$ 1,173,293</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the financial statements of Humboldt County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated September 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Humboldt County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Humboldt County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Humboldt County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Annex, Bell, Kyles & Co. P.C.

Atlantic, Iowa
September 22, 2010

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

10-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2010 did not exceed amounts budgeted.

10-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 4,483

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2010

PART II - REQUIRED STATUTORY REPORTING - Continued

10-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

10-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 532

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

10-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

10-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *